

Message Text

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PAGE 01 CAIRO 04218 281716Z

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ACTION SS-25

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 3602

C O N F I D E N T I A L CAIRO 4218

EXDIS

FOR UNDERSECRETARY ROBINSON FROM AMBASSADOR

EO 11652: GDS

TAGS: BEXP, EINV, JWGEY, EG

SUBJECT: UNION CARBIDE PETROCHEMICAL PROJECT

1. UNION CARBIDE REPS INFORMED COML OFF APRIL 28 THAT DURING PAST FEW DAYS THEY HAD HELD INTENSIVE DISCUSSIONS RE LARGE-SCALE PETROCHEMICAL PROJECT AND HAD NOTIFIED GOE THAT, DUE TO MANAGEMENT MANPOWER LIMITATIONS, UNION CARBIDE COULD NOT UNDERTAKE CONSORTIUM CO-ORDINATING AND PLANNING ROLE AS ENVISAGED IN MEMORANDUM OF UNDERSTANDING SIGNED IN DECEMBER. MEMORANDUM NEVER ENTERED INTO EFFECT BECAUSE OF FAILURE TO AGREE ON CHANGES PROPOSED BY GOE WHEN EGPC BOARD INITIATED AGREEMENT IN JANUARY. GOE OFFICIALS, HOWEVER, TOLD UNION CARBIDE THAT THEY HAD FELT THAT MEMO OF UNDERSTANDING WAS IN EFFECT.

2. LOSS OF UNION CARBIDE AS PROJECT CO-ORDINATOR LIKELY TO HAVE UNFAVORABLE SIDE EFFECTS ON BUSINESS CLIMATE AND POSSIBLE IMPACT ON GENERAL US/EGYPTIAN ECONOMIC RELATIONS.

3. UNION CARBIDE MAY HAVE ALREADY GONE SO FAR IN DISCUSSIONS WITH GOE THAT UNION CARBIDE DECISION NOT REVERSIBLE. NEVERTHELESS, EMBASSY BELIEVES DEPT APPROACH AT HIGHEST LEVEL OF UC MANAGEMENT SHOULD BE MADE PROMPTLY TO SEEK CLARIFICATION AND ASK COMPANY TO RECONSIDER. THIS DEVELOPMENT PARTICULARLY UNFORTUNATE ON EVE OF UNDERSEC ROBINSON'S VISIT.

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4. CARBIDE DID INDICATE TO GOE THAT THEY ARE STILL INTERESTED IN

EQUITY POSITION IN PETROCHEMICAL PROJECT, BUT ON REDUCED SCALE AND FOR MORE LIMITED PRODUCTS. UNION CARBIDE PREPARED BE MINORITY PARTNER IN SOME OF PARTICIPATING COMPANIES, WHICH WOULD HAVE TOTAL CAPTIAL OF 350 MILLION AND WOULD BE PART OF 1 BILLION PROJECT, UPON CONDITION THAT GOE PROVIDE SERIES OF ADDITIONAL INCENTIVES INCLUDING EXTENDED TAX HOLIDAY, FAVORABLE CONSIDERATION ON RAW MATERIAL COSTS, UTILITIES AT SUBSIDIZED RATES, AND GOE CONSTRUCTION OF INFRASTRUCTURE, SUCH AS WATER TREATMENT AND STEAM PLANTS OUTSIDE OF PROJECT.

5. UNION CARBIDE DECISIONS ALSO REPORTEDLY DUE TO REASSESSMENT OF W. EUROPEAN MARKET PROSPECTS FOR IMPORTED PETROCHEMICALS AND NEW COST ESTIMATES FOR EQUIPMENT REQUIRED WHICH ARE MUCH HIGHER THAN ANTICIPATED.

6. UNION CARBIDE OFFERED PROVIDE GOE ADVICE OF ONE EXECUTIVE FOR PART-TIME SERVICES ON PROJECT ORGANIZATION. THIS TOKEN OFFER PROVIDES LITTLE SOLACE TO GOE FACED WITH MAJOR PROBLEM PUTTING TOGETHER PROJECT OF THIS MAGNITUDE AND COMPLEXITY. EILTS

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